

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2013 - 42 - S**

IN RE: Application of Palmetto Utilities, Inc.       )  
for adjustment of rates and charges                )  
for, and modification to certain terms             )  
and conditions related to,                            )  
the provision of sewer service.                    )

**DIRECT TESTIMONY OF**  
**FRED ("RICK") MELCHER, III**

1   **Q.   PLEASE STATE YOUR NAME, PRESENT POSITION AND BUSINESS**  
2   **ADDRESS.**

3   A.           My name is Fred ("Rick") Melcher III and I am employed as Manager of Public  
4                Relations for Ni America Operating, LLC. My business address is 10913 Metronome  
5                Drive, Houston, Texas 77043.

6  
7   **Q.   WHAT IS NI AMERICA OPERATING, LLC?**

8   A.           Ni America Operating, LLC (Ni America) is owned by Ni America Capital  
9                Management, LLC, which owns Ni South Carolina Utilities, Inc., the sole shareholder of  
10               Palmetto Utilities, Inc., the applicant in this proceeding. Ni South Carolina Utilities, Inc.  
11               was formerly known as Wateree Utilities Holding, Inc.

12  
13   **Q.   WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?**

14   A.           As Manager of Public Relations for Ni America, it is my responsibility to serve as  
15                the liaison for all operating subsidiaries with regulators, customers, media and the general  
16                public. In that capacity, my duties include coordinating meetings between operating  
17                subsidiary personnel and regulators, customers, and the media, attending state  
18                commission public meetings on behalf of all utilities when appropriate, and testifying in  
19                state commission hearings when necessary. I coordinate any requested presentations

1 from our operating subsidiaries at these meetings. I also monitor matters before state  
2 agencies and legislatures as they relate to our operating subsidiaries.

3  
4 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

5 A. I am a 1980 graduate of Texas A&M University with a Bachelor of Business  
6 degree. I was first employed in a regulated industry in 1978 by Southwestern Bell  
7 Telephone Company and trained to manage personnel working with customers in the  
8 Business Office and in AT&T Phone Center Stores. From 1997 to 2002 I was Manager  
9 of Public Relations for AquaSource Utility Company, a provider of water, wastewater  
10 and propane gas services. I have been Public Relations Manager for Ni America since its  
11 inception in 2007.

12  
13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

14 A. The purpose of my testimony is to support the Application of Palmetto Utilities,  
15 Inc., which I will refer to in my testimony as "Palmetto" or the "Company", for an  
16 increase in sewer rates. Specifically, I will be discussing the Company's efforts to  
17 update commercial customer single family equivalency, or SFE, ratings to ensure  
18 accurate billing to commercial customers, educate customers about the rate relief  
19 proceedings in general, its specific need for the rate relief sought in this case, and the  
20 need to eliminate the introduction of grease into the Company's system., .

21  
22 **Q. PLEASE ELABORATE ON THE COMPANY'S EFFORT TO UPDATE SFE**  
23 **COMPUTATIONS.**

24 A. In order to accurately bill customers for service in accordance with the terms of  
25 our rate schedule, as is required by the Commission's regulations, the Company  
26 periodically updates the number of commercial SFEs by conducting a study of its  
27 commercial customers' business operations and their service premises. This study  
28 includes a premises inspection by a company representative(s) to ascertain the existence  
29 and extent of the equivalency factors required to be used in the computation of the

1 monthly service charge based upon the number of SFEs. As provided for in the current  
2 Palmetto rate schedule, the equivalency factors track the loading factors set out in DHEC  
3 Regulation 61-67, Appendix "A", "Contributory Loading Guidelines".  
4

5 As the Commission is aware, many of the sewer utilities regulated by it,  
6 including PUI, are authorized to use Appendix "A" to Regulation 61-67 to set the  
7 equivalencies for commercial customer accounts. In our last rate relief proceeding, the  
8 Office of Regulatory Staff noted that the Company had not updated the commercial  
9 equivalencies for certain customers, including a school district. Accordingly, the  
10 Company undertook to do so in anticipation of this proceeding and I supervised the  
11 Company's effort in this regard.  
12

13 **Q. WHAT WERE THE RESULTS OF THIS STUDY?**

14 A. The Company determined that there were some commercial customers whose  
15 equivalency ratings were higher than that for which they were being billed and others  
16 whose equivalency ratings were lower than that for which they were being billed.  
17

18 **Q. WHAT CAUSED THESE VARIATIONS BETWEEN THE BILLED NUMBER OF**  
19 **SFEs AND THE CORRECT NUMBER OF SFEs FOR COMMERCIAL**  
20 **CUSTOMERS?**

21 A. The cause for these variations is simply a change in the factors that apply in  
22 determining an SFE rating for a commercial customer. For example, in some instances,  
23 the prior bills may not have included the correct number of seats in a restaurant, the  
24 square footage of a shopping center, the number of washing machines in a laundry, etc.  
25 In some instances, the nature of the commercial customer connected to the system may  
26 have changed such that the type of business for which service had been established was  
27 no longer the type of business being conducted at the commercial customer premises.  
28 And in other instances, the size or scope of a commercial customer premise may have  
29 changed.

1  
2 **Q. WHAT WAS THE RESULT OF THE STUDY IN TERMS OF THE TOTAL**  
3 **NUMBER OF COMMERCIAL SFEs?**

4 A. The result was that the total number of commercial SFEs increased by 588.31.  
5

6 **Q. WERE THE RESULTS OF THIS SFE STUDY PROVIDED TO THE AFFECTED**  
7 **CUSTOMERS?**

8 A. Yes, they were. Palmetto communicated the results to the affected commercial  
9 customers by a letter dated March 5, 2013 in which the Company explained our need to  
10 occasionally update SFEs, the equivalency factors used to calculate their specific SFEs  
11 according to Appendix A of DHEC Regulation 61-67, their resulting increase or decrease  
12 in SFEs, and the effect on their monthly bill. We also provided these customers with a  
13 copy of Appendix A for their review and better understanding of the factors which  
14 influence the number of their SFEs. In addition to providing this information, our letter  
15 also informed customers of our intent to submit an application for rate relief and  
16 requested that they provide comments as to the accuracy of our SFE count for their  
17 service account. A copy of this letter, which was also provided to ORS at the same time  
18 it was sent to customers, is attached to my testimony as RM Exhibit 1.  
19

20 **Q. DID THE COMPANY DO ANYTHING ELSE TO COMMUNICATE RESULTS**  
21 **OF THE SFE STUDY TO CUSTOMERS?**

22 A. Yes. An additional attempt was made to contact commercial customers who  
23 would experience an increase of 10 or more SFEs as a result of the study.  
24  
25



1 **Q. WHY WOULD PALMETTO NEED TO MAKE AN EFFORT TO EDUCATE**  
2 **CUSTOMERS AND TO HOLD TOWN MEETINGS?**

3 A. The primary reason is to ensure that customers are aware of the regulatory  
4 agencies and their jurisdiction over public, which means investor-owned, sewer utilities.  
5 The Company presentation at these customer meetings describes the roles of the  
6 Commission, ORS, and the Department of Health and Environmental Control, and  
7 provides pertinent contact information. Our goal in these discussions is for our customers  
8 to know that they have a voice and may participate in the regulatory process.  
9

10 **Q. WHAT EFFORTS HAS PALMETTO MADE TO EDUCATE CUSTOMERS**  
11 **ABOUT RATE RELIEF PROCEEDINGS AND TO EDUCATE CUSTOMERS IN**  
12 **GENERAL?**

13 A. The Company sponsored a series of "Town Hall" meetings in February, 2013  
14 which were advertised by direct mail out to all Company customers. A copy of the text of  
15 this meeting notice is attached to my testimony as RM Exhibit 2 and a copy of the  
16 meeting presentation is attached as RM Exhibit 3. As my Exhibit 3 reflects, the subject  
17 matter covered by these meetings went beyond information concerning rate relief  
18 proceedings in general and included discussion of the improvements made to the system  
19 since the last rate proceeding, grease awareness and the damage grease causes to the  
20 system and the environment, the role of the regulatory agencies over public sewer  
21 utilities, and a comparison of Company rates to other area governmental and public sewer  
22 utilities. Representatives of both ORS and DHEC were invited and a representative of the  
23 ORS attended each meeting.  
24

25 **Q. WHY WOULD PALMETTO NEED TO EDUCATE CUSTOMERS ABOUT THIS**  
26 **RATE RELIEF PROCEEDING?**

27 A. Obviously, the potential economic impact of a rate application will be of interest  
28 to the Company's customers. In our experience, we find that the greatest number of  
29 customer inquiries and complaints in the ratemaking process more often than not result

1 from a lack of understanding about regulated utilities and the role of regulatory agencies.  
2 In addition, we think that having a customer base that is educated with respect to the  
3 workings of a specific rate relief proceeding lends itself to more meaningful participation  
4 by customers in the process when they do choose to participate.  
5

6 **Q. WHY WOULD PALMETTO NEED TO MAKE AN EFFORT TO EDUCATE**  
7 **CUSTOMERS ABOUT THE INTRODUCTION OF GREASE INTO THE**  
8 **WASTEWATER SYSTEM?**

9 A. It is a fact that grease, cooking oils and fat that make their way into the  
10 Company's facilities become extremely problematic and are costly to remove. Grease  
11 causes blockages within the collection system can damage lift stations and result in  
12 sanitary sewer overflows, or "SSOs". Grease can also damage wastewater treatment  
13 plant equipment, which results in a less efficient treatment process. The labor intensive  
14 process of removing grease and the cleanup and treatment of SSOs caused by grease  
15 results in unnecessarily increased costs, which are ultimately passed on to our customers.

16 Therefore, we feel the more educated our residential customers become about  
17 how Palmetto's wastewater collection and treatment systems work, the better the  
18 facilities will operate and the less these grease problems will cause increased costs that  
19 impact rates.  
20

21 **Q. WHAT HAS PALMETTO DONE TO INFORM COMMERCIAL CUSTOMERS**  
22 **ABOUT THE PROBLEMS CAUSED BY GREASE?**

23 A. As the Commission is aware from our last rate relief proceeding, Palmetto has  
24 established and implemented a set of Sand, Oil and Grease Interceptor Standards  
25 whereby the Company sets out the minimum standards of construction of required grease  
26 traps for food service establishments, as well as providing for regular inspection of grease  
27 trap maintenance, and pump outs and requiring certification that grease hauling  
28 contractors are disposing of grease in a lawfully approved manner.  
29

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes, it does.

**Palmetto Utilities, Inc.**

March 5, 2013

Dear Customer,

We are writing to you to make you aware of some changes in the amount of your monthly bill from Palmetto Utilities, Inc. ("PUI") for wastewater services that will be reflected in your next billing statement.

As you may be aware, your monthly wastewater bill is determined by the number of single family equivalents, or SFEs for your service premises, which is determined by a provision in our rate schedule which is based upon a regulation promulgated by the South Carolina Department of Health and Environmental Control ("DHEC") and approved by the Public Service Commission of South Carolina ("PSC"). Under this rate schedule provision, an SFE is defined as follows:

***"A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2010), as may be amended from time to time."***

In order to bill all customers for service in accordance with the terms of our rate schedule, which is required under PSC regulations, PUI finds it necessary to periodically update our SFE computations to ensure accurate billing. For this reason, we have recently conducted a study of our commercial accounts in order to verify that we are using the proper SFE rating for each of our commercial customers. This process generally includes a recent visit to your service premises by a PUI representative to inspect and ascertain the existence and extent of the loading factors required to be used in the computation of your monthly service charge based upon the number of SFEs outlined in the DHEC Contributory Loading Guidelines mentioned above. For your convenience we have attached a copy of those Loading Guidelines to this letter (see Appendix A).

Our inspection of your service premises indicates the following loading factors, resulting in the single family equivalency rating shown below and the impact they have on your monthly wastewater bill using PUI's existing rate of \$33.00 per SFE.

Establishment Identifier:

Establishment Address:

	Type of Establishment	Driver	Loading Factors	Hydraulic Loading (GPD)	SFE's
Code(s) used for Calculation of Loading Factor(s) in Appendix A of R.61-67:					

New SFE Total Resulting from Study

Old SFE Total

Increase/(Decrease) of Monthly Bill \$

# Palmetto Utilities, Inc.

Docket No. 2013-42-S

RM - Exhibit 1

Page 2 of 2



While PSC regulations entitle PUI to back bill (for a period of between 6 and 36 months depending upon the circumstances) for amounts that were under-billed as illustrated in the calculation above, we have elected not to do so at this time.

The results of our review of your account and inspection of the service premises will also be used in an upcoming rate application PUI will be filing with the PSC. Accordingly, it is important to both you and PUI that the most accurate information available for SFEs associated with your service account be available to us. Therefore, we would appreciate your providing any comments on the nature of your establishment and the accuracy of the loading factors used above.

We thank you in advance for your participation in this process. Your input is vitally important in determining the correct number of SFEs applicable to your business and for that reason we ask that you provide any comments regarding the information above provided no later than Friday, March 29, 2013. Please send responses to Rick Melcher at [rmelcher@niamerica.com](mailto:rmelcher@niamerica.com).

If you have any questions or need any additional information please contact Rick Melcher by email at the address above.

Respectfully,

Palmetto Utilities, Inc.

Attachment: DHEC Regulation 61-67, Appendix A



## **Palmetto Utilities, Inc.**

### **TOWN HALL MEETINGS**

Dear Customer: How Are We Doing?

It has been almost two years now since we last met to discuss your wastewater utility system. Our constant goal is to provide exemplary customer service and to address the issues and concerns that you may have as we work to keep the system functioning properly and in regulatory compliance.

We would like to hear from you.

For investor-owned utilities such as Palmetto Utilities Inc., the South Carolina Public Service Commission (PSC) regulates the rates the utility is allowed to charge its customers. The Office of Regulatory Staff (ORS) is responsible for utility system inspections and the review of expenditures to ensure the utility meets all federal and state regulations. In exchange for providing quality, reliable and non-discriminatory service to all customers in the service area, the utility is entitled to the opportunity to earn a reasonable return on prudently invested capital necessary to provide service and to recover reasonable operating expenses.

The rate process requires the utility to apply to the PSC for a change in its rates and the process includes a public hearing that allows customers to participate in the process. We will soon be mailing to you a notice that an application has been filed with the PSC requesting an increase in the rates for the Palmetto wastewater system. We would like to invite you to discuss this rate application with us and to explain the need for a rate increase at several Town Hall meetings to be held later this month. Any change in our rates will require approval from the PSC.

A note to our commercial customers: We are required to periodically review our commercial accounts in order to estimate their wastewater flow as it compares to our residential customers (Equivalent Residential Connection, or ERC). We have recently conducted this study and commercial customers may see a change (increase or decrease) in their number of ERCs. We will be pleased to provide information about how ERCs are determined and the DHEC guidelines which we must follow in this process.

Please plan to attend any of the following TOWN HALL MEETINGS so that we may explain our rate application and answer any questions you may have. All meetings will be held from 6:30 – 8:00pm.

#### **WHEN and WHERE**

<b>Wednesday</b>	<b>2/20</b>	<b>Lake Carolina Elementary School Cafeteria</b>
<b>Thursday</b>	<b>2/21</b>	<b>Pontiac Elementary School Cafeteria</b>
<b>Monday</b>	<b>2/25</b>	<b>Blanney Elementary School Cafeteria</b>
<b>Tuesday</b>	<b>2/26</b>	<b>Blythewood Community Center</b>

Palmetto Utilities appreciates all of our customers. We hope you will attend one of the upcoming meetings and find it to be an opportunity for a refreshingly open discussion of how the utility system works and the reasons behind our need for rate relief. We look forward to seeing you there.

Sincerely,

Rick Melcher - Manager of Public Relations  
Palmetto Utilities Inc.

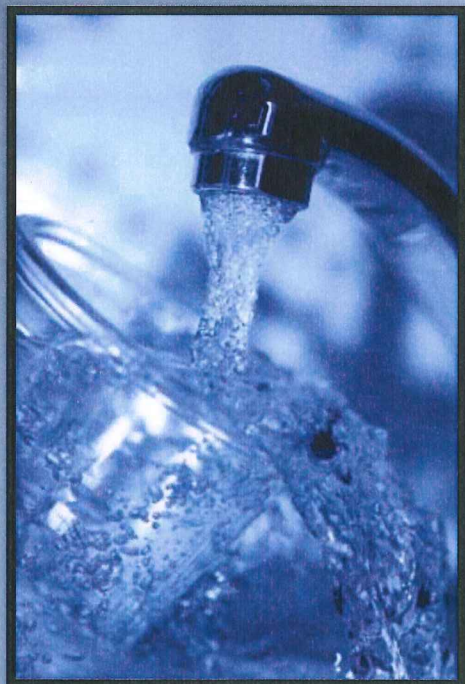
**Customer Service Office: 1713 Woodcreek Farms Rd, Elgin, SC 29045 803-699-2422**



***Palmetto Utilities***  
***11,915 Residential***  
***340 Commercial***







# **Ni America, LLC**

*Regulated Water  
and Wastewater Utilities*

**Emphasizing regulatory compliance  
and customer service**

**Texas - South Carolina - Florida**



## SOUTH CAROLINA



**Palmetto Utilities, Inc. (PUI)**

**Palmetto Wastewater Reclamation, LLC (PWR)**

*Alpine Utility System*

*Woodland Utility System*

**Palmetto Richland County, LLC (PRC)**

*Pending Approval*

**803-699-2422**  
**1713 Woodcreek Farms Rd**  
**Elgin, SC 29045**

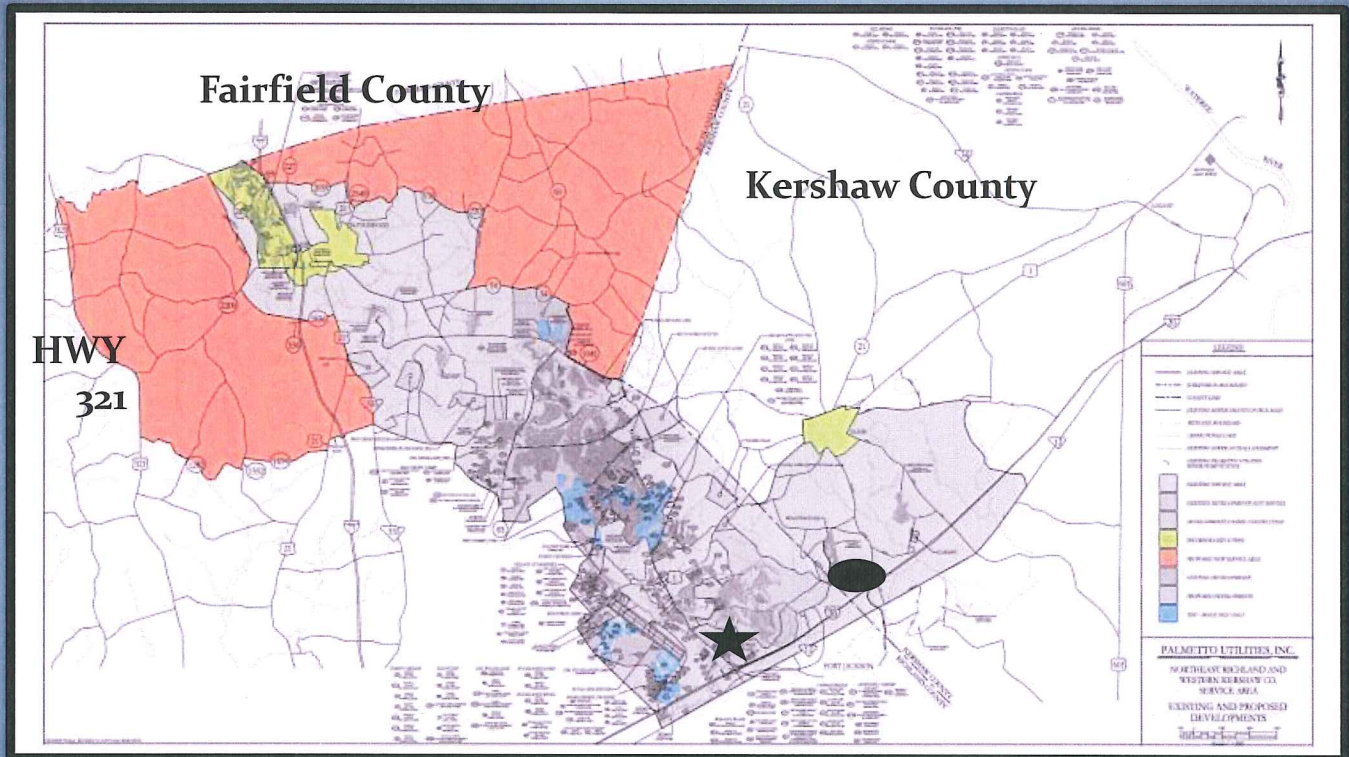


# Palmetto Service Area

Orange, Gray areas are Palmetto Utilities  
Green areas are City of Blythewood, City of Elgin

★ Office

● WWTP







## **PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

### ***WHAT IS REGULATED BY THE COMMISSION?***

The Commission regulates investor-owned water and wastewater utilities, telephone utilities, electrical utilities, gas utilities, and motor vehicle carriers as defined in Title 58 of the South Carolina Code. The Seven-Member Commission essentially functions as a court with the principal duty to hear cases involving regulated utilities.

- **exclusive jurisdiction to establish fair and reasonable rates**
- **requires regulated utilities to provide adequate service and to treat all customers equitably**
- **receives formal complaints regarding regulated utilities**

**803-896-5100**

**<http://www.psc.sc.gov>**





South Carolina Office of Regulatory Staff

The Water and Wastewater Department of the ORS represents the public interest with regard to the regulation of rates and services of privately owned water and wastewater utilities in South Carolina.

### **Consumer Services**

**Resolve Disputes - Settle Inquiries - Get Educated**

**803-737-5230**

**800-922-1531 (toll free)**

**<http://www.regulatorystaff.sc.gov>**





## **South Carolina Department of Health and Environmental Control**

*We promote and protect the health of the public and the environment.*

### **Sanitary Sewer Overflows (SSO)**

Blockages - Construction Activities - Pipe failures - Pump Failures  
Grease Accumulation - Root Intrusion - Poor Maintenance  
Inflow & Infiltration

**803-898-4300**

**<http://www.scdhec.gov>**



## Palmetto Utilities

*277 miles of pipe*

Gravity Pipe 243 miles

Force Main 34 miles

Manholes 6,424

Lift Stations 57

WW Treatment 6 MGD



## **Palmetto Improvements**

### **Collection System -**

*Root Cleaning, Easement Clearing, I & I Repair,  
Pipe Repairs/Liners, Lift Stations, Manholes,  
Line Extension (Abney Hill Estates)*

**WWTP - Process & Control Upgrades, New Digester**  
*(all designed to improve treatment process)*

**Capital Cost Since 3/2011**

**\$4,200,000**



## New Security Gate

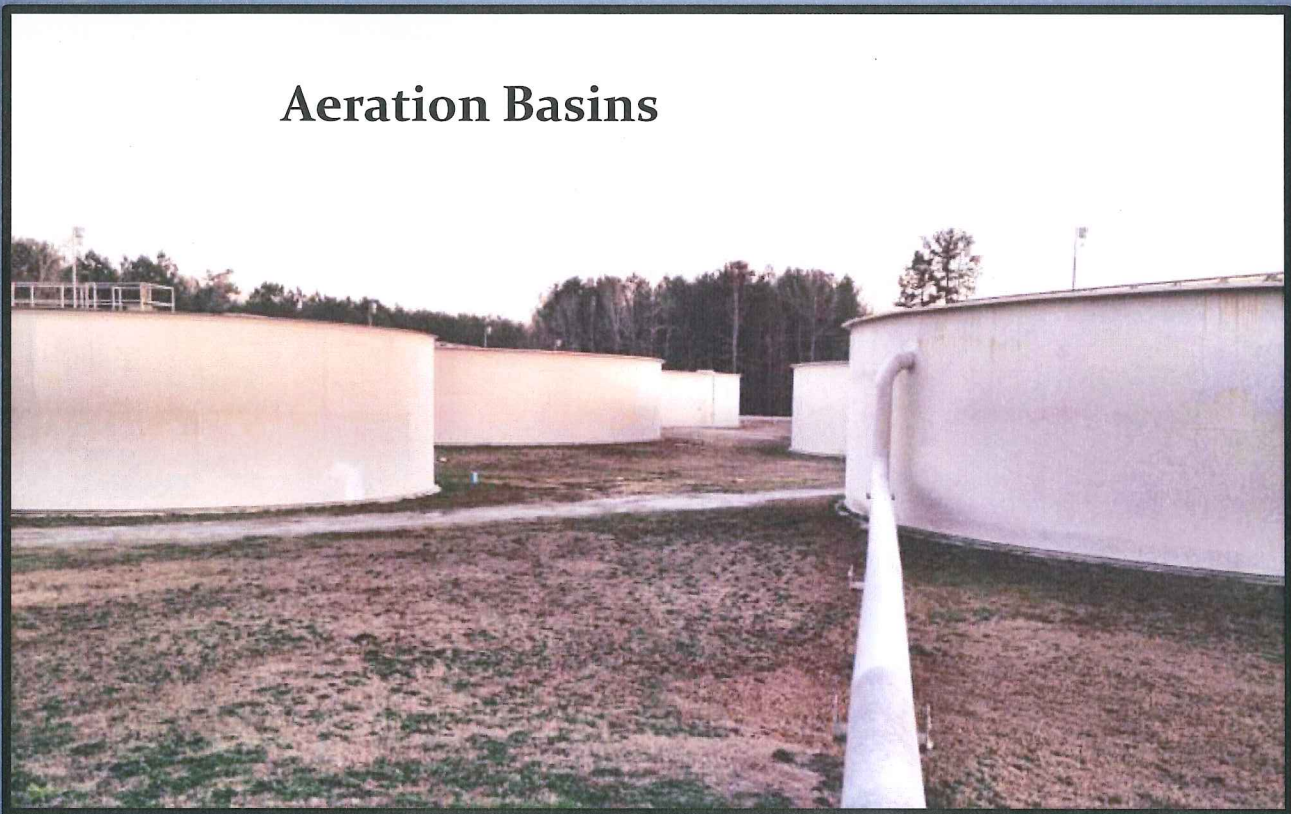




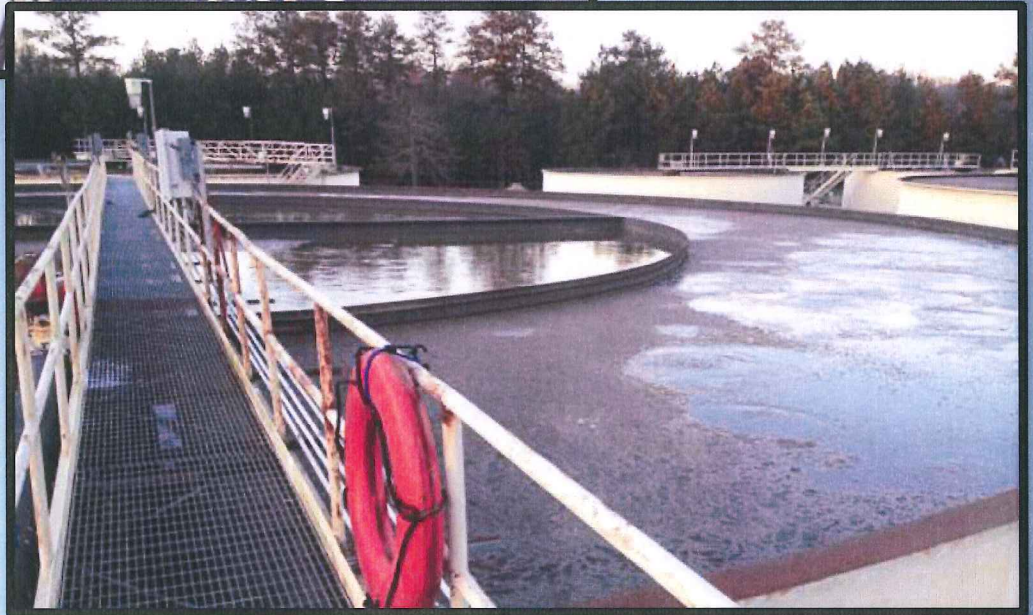
## Spears Creek Plant 6 MGD



## Aeration Basins

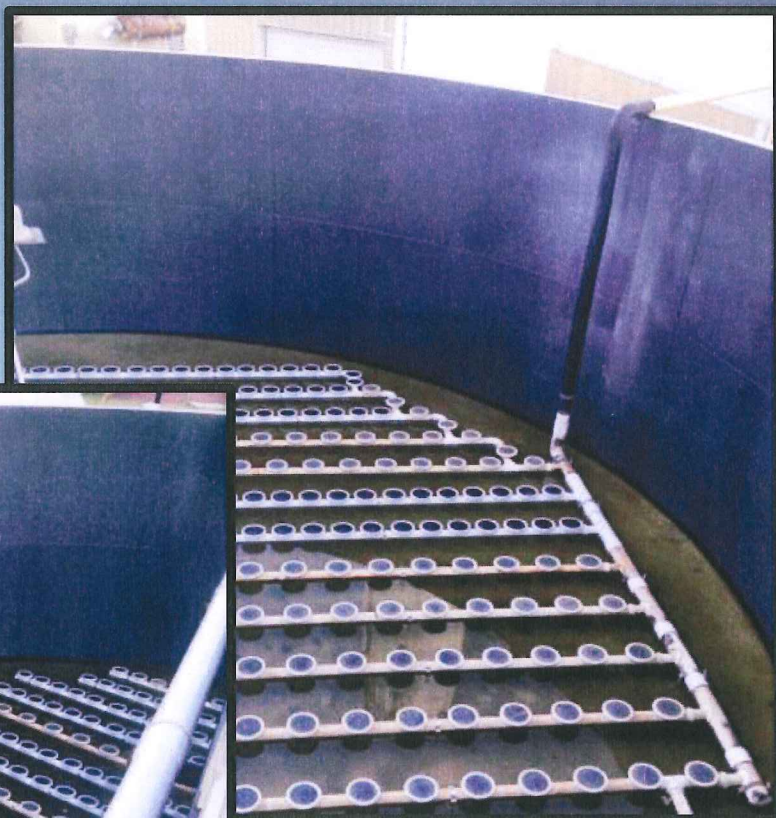








## New Digester





# New Influent Meter



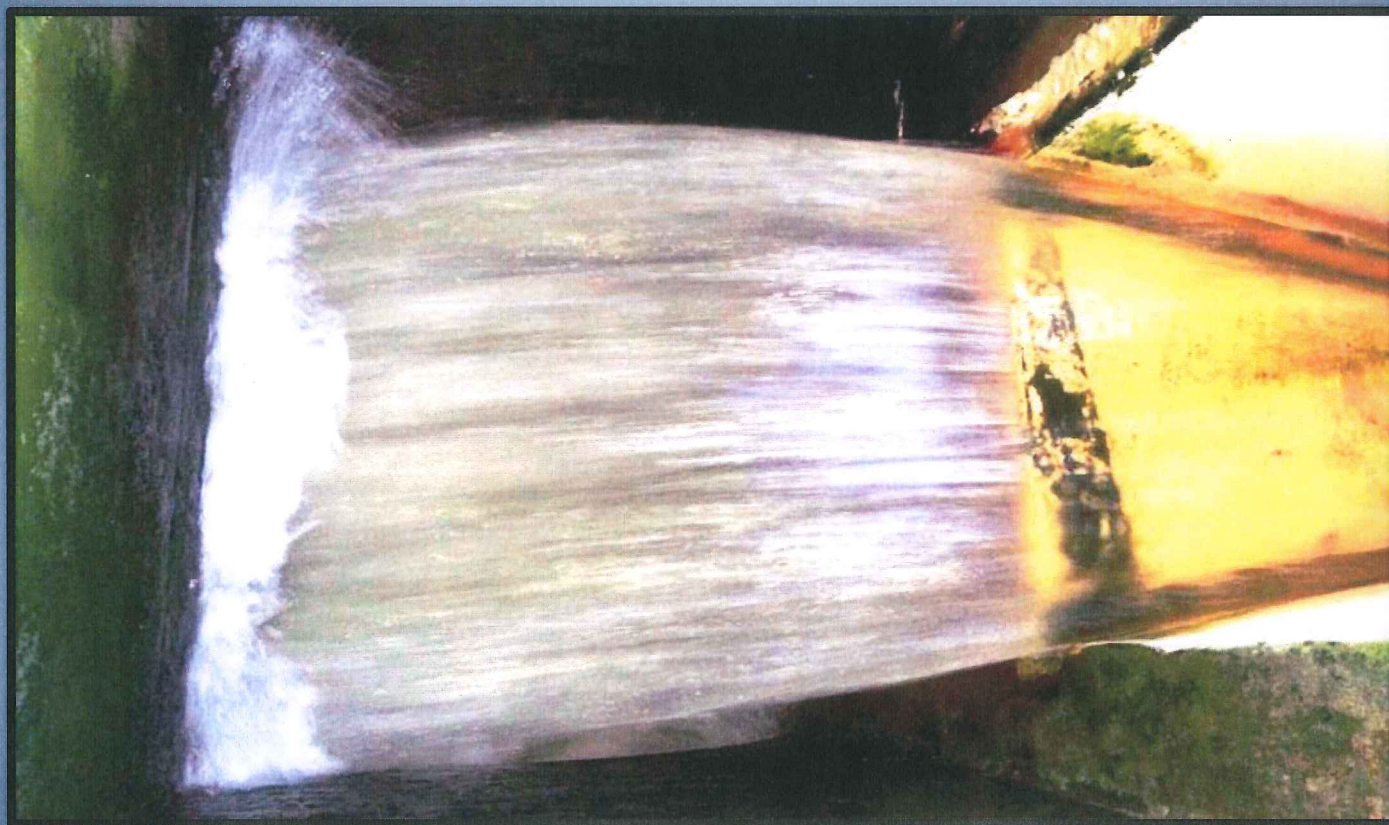


## Wastewater As It Enters the Plant





## Wastewater As It Leaves The Plant -- “Effluent”





## **RIBs – Rapid Infiltration Basins:** all Palmetto effluent is discharged here





## Debris



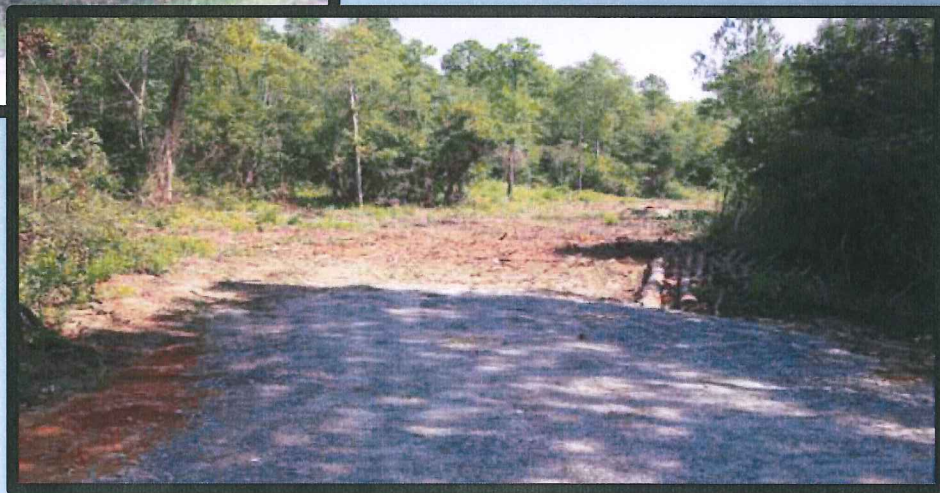


## Utility Easements Must Be Cleared



before

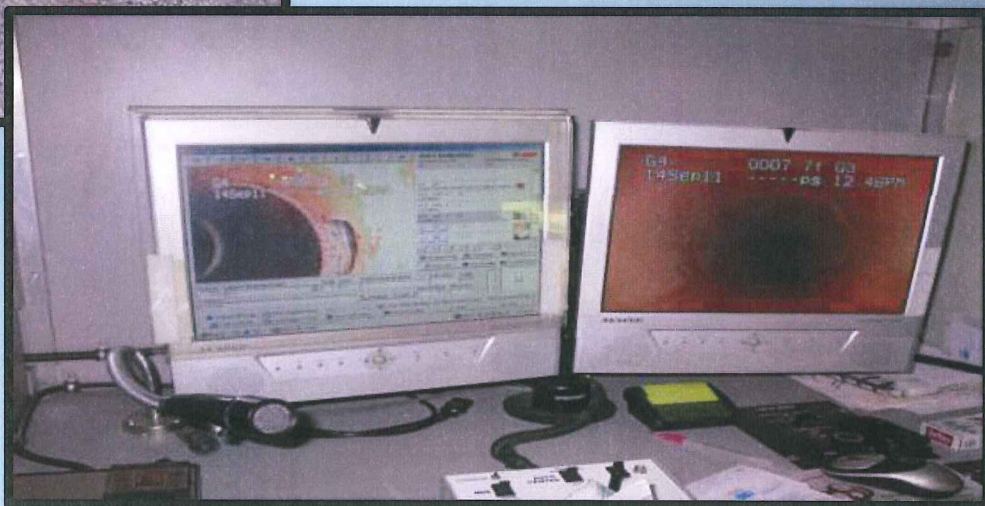
after







# Collection System Video Camera



## Pipe After Cleaning

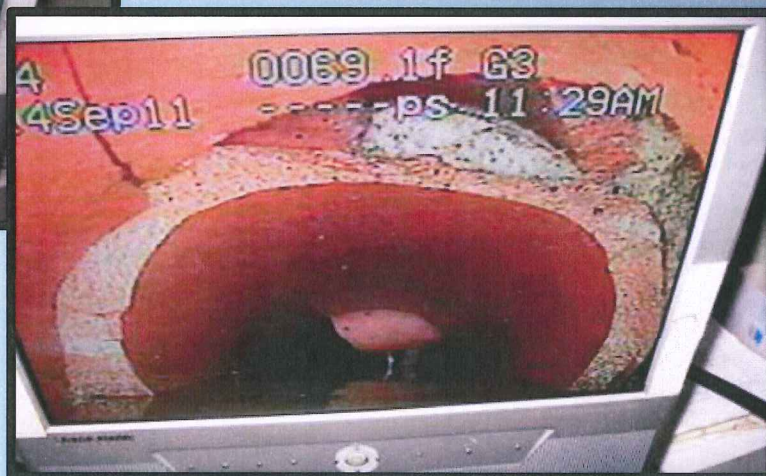




## Pipes Must Be Repaired



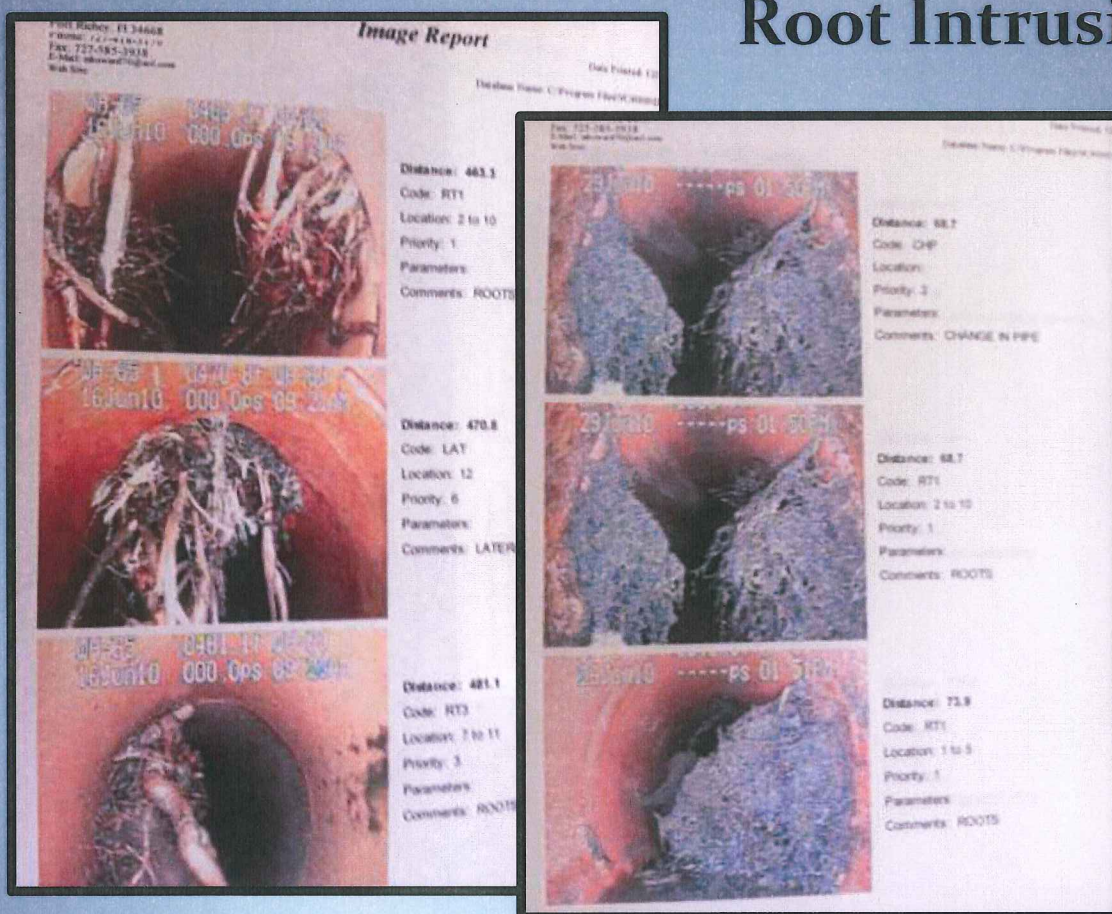
Steel Rod in Pipe



Broken Pipe



## Root Intrusion







**Pipe Totally Blocked  
With Roots**



## Pipe Break / Repair





## **What is the environmental problem with “FOG” (FATS, OIL, GREASE) in our sewers?**

*EPA’s report to congress on sewer overflows identifies grease from “restaurants, homes and industrial sources” as the most common cause of blockages (47%). Grease is problematic because it solidifies, reduces system capacity and blocks flow\*.*

**\*EPA’s Office of Water -2007**



## Solidified Grease Causes Blockage





**Grease – this grease caused sewer spill on 1/23/12**





## **Grease Accumulation in Lift Station:**

- Damages pumps, motors and wiring
- Costly to remove





## Eliminating Grease From the System

1. Residential Customer Awareness (“FOG”)
2. Commercial Grease Trap Program
  - *Grease Trap Standards*
  - *Restaurant Inspections*
  - *Pump outs*
  - *Compliance or Disconnection*

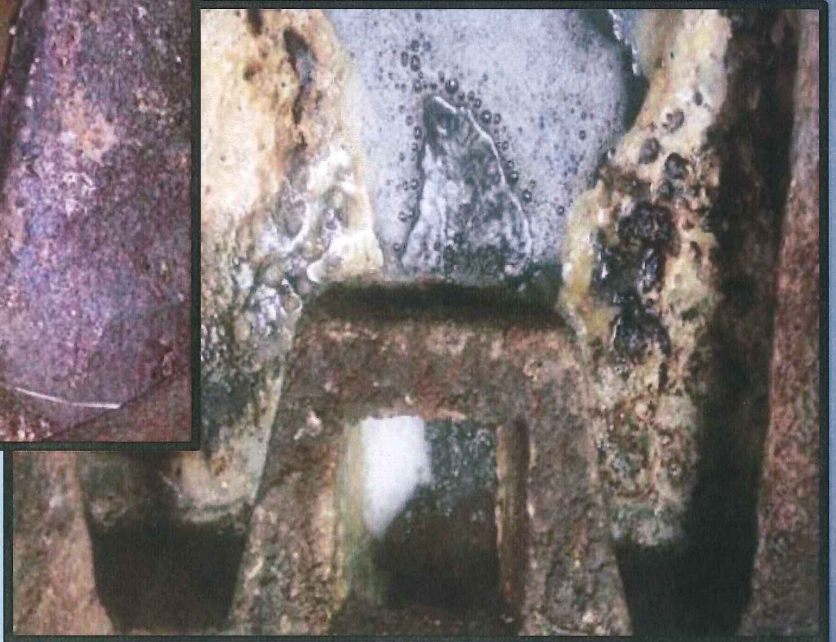


## **New Commercial Grease Trap – all restaurants must use and maintain in good condition**





## Grease Traps Poor Condition





## **Inflow and Infiltration (I & I)** *“Introduction of groundwater/stormwater into the sewer system.”*

### **Sources:**

- Cracks, breaks in sewer pipes due to age, root intrusion, etc.
- Improper/illegal connection of storm water drainage to the sewer collection system

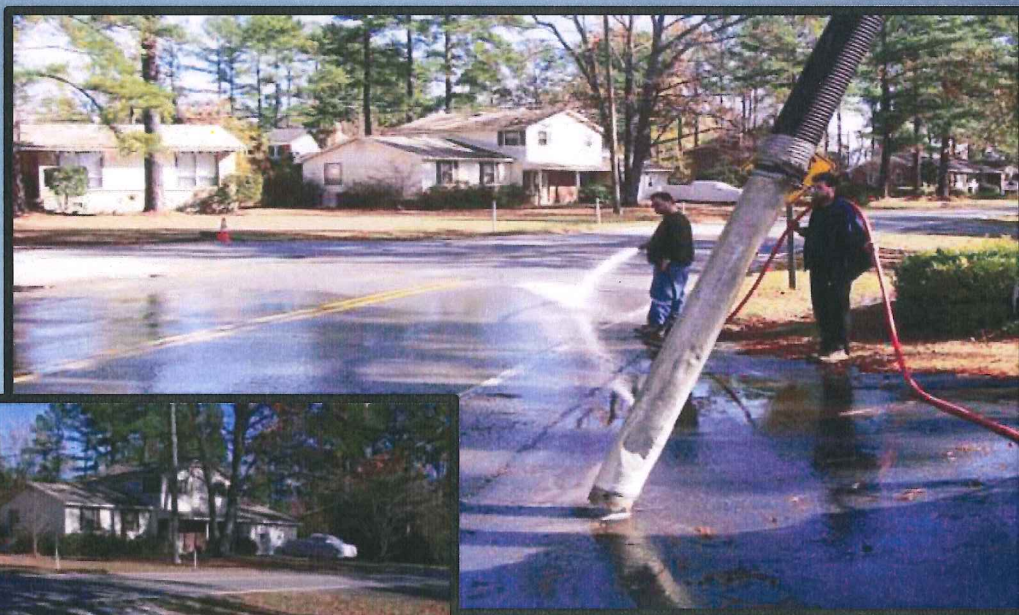
### **Result:**

- Overloads the sewer system
- Shortens life of pumps, motors
- System can overflow into the environment
- Sewage can back up into customer residences





## SSO Cleanup: *vacuum, flush, vacuum, disinfect*

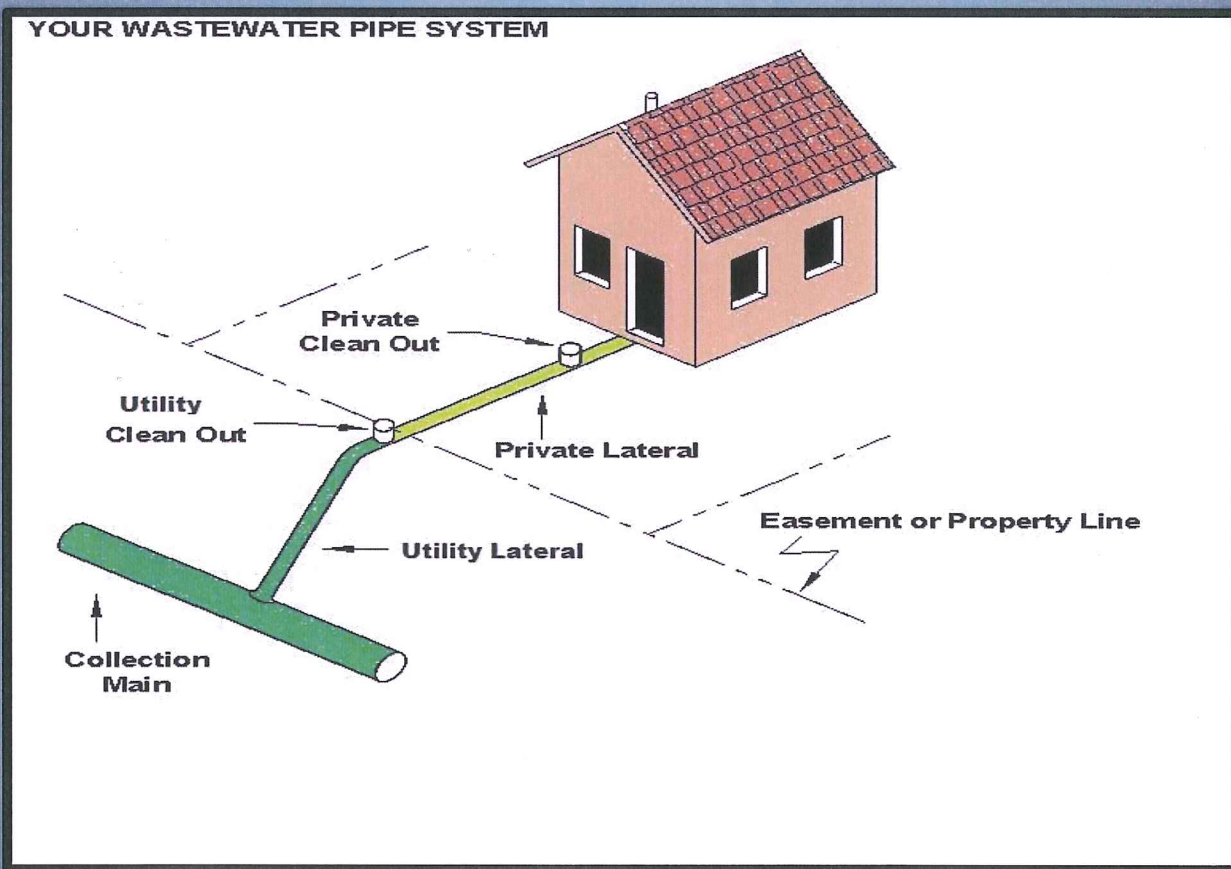








## Utility / Customer Responsibility *with utility cleanout*



## **Privately Owned Utilities (Investor Owned Utilities /IOU)**

- Must meet all regulatory guidelines
- IOU rates must reflect full cost of service
- Rates must also provide a “reasonable rate of return to ensure continued investment/compliance by private owners”



## The Rate Process

### WHY RATES INCREASE?

- Additional investment in the utility system (repairs, replacements, improvements)
- Increases in Operations & Maintenance costs

### HOW?

- Application is filed with the PSC
- Utility must provide notice to customers
- ORS “represents the public interest” and conducts audit of utility records
- Expenditures must be “Used and Useful”, “Reasonable and Necessary”
- Hearing is held where customers are invited to participate
- PSC determines final rates



## **Palmetto Rate Increase**

<b>Current Rate</b>	<b>Proposed Increase</b>
<b>\$33.00</b>	<b>\$ 39.00</b>

## Area Wastewater Rates Comparison

Alpine	\$ 29.00	
Woodland	24.00	
Palmetto Utilities	33.00	
Average SC IOU	35.00	(range from \$16.75 - \$82.82)
Richland County	46.54	
City of Columbia (outside)	62.93	(8,000 gal)
	76.11	(10,000 gal)
Lexington County	58.63	(8,000 gal)
(\$9.75 base + \$5.41 usage + 5.50 backflow fee)	69.35	(10,000 gal)
Lexington City	53.63	(non-metered flat rate)
	74.70	(metered 8,000 gal)
Average "Govt" Rate	59.29	(8,000 gal) (range from \$46.54 - \$74.70)



## Important Numbers

**Palmetto Customer Service**      **803-699-2422**

*Please Report Sewer Spills Immediately!*

**Office of Regulatory Staff**      **803-737-5230**

**DHEC**      **803-898-4300**  
**after hours: 253-6488**

**Public Service Commission**      **803-896-5100**



## Commercial Customers

- “ERCs” - Equivalent Residential Connection
- We Calculate ERCS according to DHEC Regulation 61-67, Appendix A
- Examples:      *Loading factors*
  1. *Office Space – 25 gal/person*
  2. *Restaurants – 40 gal/seat + 40 gal/car in drive thru*
  3. *Schools – 10 gal/person, 15 gal with cafeteria, 20 gal with cafe and showers*
  4. *Shopping Centers – 200 gal/1000 sq. ft. + restaurant*